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ACTION AF-00

INFO	LOG-00	AID-00	CIAE-00	COME-00	CTME-00	DINT-00	DODE-00
	DOEE-00	ITCE-00	SRPP-00	EB-00	ED-01	EXME-00	EUR-00
	E-00	UTED-00	VC-00	FRB-00	H-01	TEDE-00	INR-00
	IO-00	ITC-01	L-00	AC-01	NSAE-00	NSF-01	OES-01
	OIC-02	OMB-01	OPIC-01	PM-00	PRS-00	ACE-00	SP-00
	SSO-00	SS-00	STR-00	T-00	USIE-00	EPAE-00	PMB-00
	G-00	SAS-00	/010W				

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FM AMEMBASSY HARARE
TO SECSTATE WASHDC PRIORITY 8442
INFO NSC WASHDC
SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
USDOC WASHDC
DEPT OF TREASURY WASHDC
DEPT OF INTERIOR WASHDC
AMEMBASSY NAIROBI

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SIPDIS

DEPT FOR AF/EPS, AF/S, EB/IFD/ODF, ED/ESC/ENR
USDOC FOR 2037/ERIC HENDERSON
TREASURY FOR ED BARBER, BARAK HOFFMAN
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
LONDON FOR CGURNEY
PARIS FOR B WILLIAMS
NAIROBI FOR PFLAUMER

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STATE PASS USGS FOR GEORGE COAKLEY
INTERIOR PASS BUREAU OF MINES
DEPT PASS USTR FOR ROSA WHITAKER

E.O. 12958: N/A

TAGS: [ECON](#) [EMIN](#) [ETRD](#) [KTDB](#) [ZI](#)

SUBJECT: TWO MINING OPERATIONS AND A FOOTWEAR MANUFACTURER
KEEP THEIR HEAD ABOVE WATER ONLY BY EXPORTING

REF: HARARE 711

1. TO ASSESS BUSINESS AND OPERATING CONDITIONS OF LARGE
EMPLOYERS LOCATED OUTSIDE THE CAPITAL CITY, ON MARCH 5-7
EMBASSY ECONOMIC AND COMMERCIAL OFFICERS VISITED THREE
BUSINESSES IN THE SOUTHERN MASVINGO PROVINCE OF ZIMBABWE.
THE COMPANY/OPERATIONS WERE:

- = RAILWAY BLOCK CHROMIUM MINE, SHURUGWE, 750 EMPLOYEES
- = BATA SHOE MANUFACTURING, GWERU, 3500 EMPLOYEES
- = SHABANI ASBESTOS MINE, ZVISHAVANE, 3800 EMPLOYEES

ALL THE BUSINESSES ARE THE LARGEST EMPLOYERS IN THEIR AREA,
AND BOTH MINES HAVE BEEN OPERATING FROM THE TURN OF THE LAST
CENTURY. ALL REPRESENT VERY SUBSTANTIAL INVESTMENTS, AND
THEIR SHUTDOWN WOULD HAVE SEVERE NEGATIVE CONSEQUENCES WITH
WIDE-RANGING RIPPLE EFFECTS. ALL THREE OPERATIONS PROVIDE
HOUSING, UTILITIES, EDUCATION AND MEDICAL FACILITIES FOR
THEIR EMPLOYEES AND DEPENDENTS, AND HAVE SEEN THEIR OPERATING
COSTS RISE AND MARGINS SLIP IN RECENT TIMES DUE TO HIGH
DOMESTIC INFLATION. THE FUEL SHORTAGE HAS ALSO NEGATIVELY
IMPACTED THEIR OPERATIONS, ESPECIALLY THE MINES, WHICH HAVE

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TO PROMISE AND PROVIDE FUEL TO THE NATIONAL RAILROAD TO
SECURE SERVICE.

EXPORTING IS THE KEY TO SURVIVAL

2. MANAGEMENT AT ALL THREE OPERATIONS TOLD US THAT THE KEY TO
THEIR VIABILITY IN TODAY'S HARSH ECONOMIC ENVIRONMENT IS
THEIR EXPORT SALES, AND THE ABILITY TO CONTROL THE
DISPOSITION OF A MAJORITY OF THE HARD CURRENCY THEY EARN.
ALL THREE ARE PURELY PRIVATE-SECTOR OPERATIONS. BOTH OF THE
MINING COMPANIES ALLOCATE ABOUT 25 PERCENT OF THEIR TOTAL
FOREIGN EXCHANGE EARNINGS TO GOVERNMENT PARASTATALS,
PRIMARILY THE NATIONAL RAILROAD AND THE NATIONAL ELECTRICITY
AUTHORITY (BOTH MINES ARE LARGE POWER CONSUMERS AND THE
RAILROAD TRANSPORTS THE ORE AND THE COAL THEY NEED AS WELL AS
THE FINISHED PRODUCT). THEY DO SO ON A VOLUNTARY BASIS TO
AVOID A GOVERNMENT DIRECTIVE THAT MIGHT ALLOCATE MORE OF
THEIR EARNINGS, AND THEY WERE HORRIFIED BY THE SHORT-LIVED
RESERVE BANK DIRECTIVE THAT SEIZED 100 PERCENT OF THEIR
EXPORT EARNINGS FOR A FEW DAYS IN FEBRUARY (REFTEL). THE

EXPORT PERCENTAGES AND EARNINGS OF THE THREE ARE:

= FERRO-CHROME MINE, EXPORTS 100 PERCENT OF OUTPUT (ABOUT 15 TONS/ANNUUM OF REFINED CHROME), VALUE: ABOUT U.S. \$5 MILLION AT CURRENT WORLD PRICES;

= BATA SHOES, EXPORTS AN AVERAGE 10 PERCENT OF BATA LABEL PRODUCTION (ABOUT 13 MILLION PAIRS/ANNUUM) AND 100 PERCENT OF NIKE-LICENSED PRODUCTION (VOLUME NOT PROVIDED), VALUE OF BATA EXPORTS: ABOUT U.S. 4 MILLION (OFFICIAL RATES);
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= SHABANIE ASBESTOS MINE, EXPORTS 88 PERCENT OF OUTPUT (72,000 TONS/ANNUUM OF FIBER), VALUE: ABOUT U.S. \$30 MILLION

13. THEREFORE, BASED ON THEIR ABILITY TO EXPORT AND COLLECT HARD CURRENCY, THEY HAVE BEEN ABLE TO SURVIVE, ALBEIT TENUOUSLY WITH HIGH DOMESTIC INFLATION AND LENDING RATES, REDUCED SUPPLIER CREDIT, THE GROWING GULF BETWEEN THE OFFICIAL AND UNOFFICIAL EXCHANGE RATE, AND CASH FLOW DIFFICULTIES. IF THE GOVERNMENT REPEATS ITS GRAB OF HARD CURRENCY FROM EXPORTERS, OR ELIMINATES FOREIGN CURRENCY ACCOUNTS ALTOGETHER, THESE COMPANIES WILL CEASE OPERATIONS, AS HAS BEEN THE CASE OVER THE LAST YEAR WITH MANY OF ZIMBABWE'S GOLD PRODUCERS. (COMMENT: GOLD PRODUCTION IN 2000 WAS DOWN OVER 20 PERCENT FROM THE YEAR BEFORE, FROM 28 TONS TO ABOUT 22 TONS, IN LARGE PART DUE TO THE GOVERNMENT'S RELEASE OF ONLY 20 PERCENT OF THE HARD CURRENCY EARNED BY GOLD SALES TO THE MINING COMPANIES. END COMMENT.) THE LOSS OF OVER 8,500 JOBS WOULD BE TRAGIC FOR ZIMBABWE, AND FOR NOW THE MANAGEMENT OF ALL THREE COME TO WORK EVERY MORNING WITH ONLY ONE GOAL IN MIND -- SURVIVAL.

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